

Message Text

SECRET

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S E C R E T BEIRUT 2622

LIMDIS

E.O. 11652: GDS
TAGS: EFIN, EAID, LE
SUBJECT: STATUS OF \$150 EURODOLLAR LOAN TO LEBANON

REF: BEIRUT 1762

1. THE \$150 MILLION EURODOLLAR LOAN PROPOSAL (REFTEL) HAS SO FAR SURVIVED LEBANON'S INTERNAL SITUATION, BUT BARELY. LOAN WAS TO HAVE PROCEEDED TO FINAL SYNDICATION IN MARCH. FOLLOWING ISRAELI INCURSION INTO SOUTH LEBANON MARCH 15, BANKS SCHEDULED TO PARTICIPATE IN THE SYNDICATION REQUESTED A NEW GOL STATEMENT OF THE POLITICAL AND FINANCIAL CONTEXT OF THE LOAN. REQUEST FORCED GOL TO PREPARE SUPPLEMENT TO THE 30-PAGE LOAN MEMORANDUM, A PROCESS COMPLETED MAY 4, WITH RESULT LOAN TODAY REMAINS SHORT OF FINAL SYNDICATION.

2. IN CONVERSATION MAY 5 WITH ECONOFF, SOURCE WHO IS RESPONSIBLE FOR DRAFTING SUPPLEMENTARY MEMORANDUM SAID THAT HE EXPECTED IT TO BE ISSUED WEEK OF MAY 15. BARRING NEW POLITICAL SHOCKS, SYNDICATION COULD BE FINALIZED BY JUNE 10.

3. COMMENT: EMBASSY TAKES NEED FOR SUPPLEMENT TO
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LOAN MEMORANDUM AS EVIDENCE THAT (A) THE POTENTIAL SECONDARY MARKET FOR THE LOAN WAS SHAKEN BY EVENTS IN LEBANON DURING FEBRUARY-MARCH, (B) THE UNDERWRITERS FACED AN UNACCEPTABLY SMALL POOL OF SUBSCRIBERS IN EARLY APRIL AND POSSIBLY SOME OF THEIR OWN NUMBER THREATENED TO WITHDRAW, AND (C) THE UNDERWRITERS THEN STRUCK A DEAL WITH GOL UNDER WHICH LENDERS AGREED TO STAND FAST

ON CONDITION GOL PROVIDED A FORMAL AMENDMENT OF THE MEMORANDUM. IF THIS PERCEPTION OF EVENTS IS ACCURATE, THE LOAN HAS ALREADY BEEN THE OBJECT OF A SALVAGE THAT MIGHT NOT HAVE BEEN UNDERTAKEN AT ALL HAD THE UNDERWRITING BASIS BEEN DIFFERENT.

4. FORTUNATELY FOR GOL, THE UNDERWRITING IS ON A COMMITMENT RATHER THAN A "BEST EFFORTS" BASIS; I.E., BANK OF AMERICA AND THE SEVEN CO-MANAGERS CAN BACK OUT OF IT ONLY AT THE COST OF CONSIDERABLE PROFESSIONAL EMBARRASSMENT. EMBARRASSMENT IS A TOLERABLE OPTION, HOWEVER, WHEN NEARLY \$20 MILLION PER UNDERWRITER IS AT STAKE AS IN THIS CASE. WE JUDGE THE LOAN REMAINS HIGHLY VULNERABLE TO ADVERSE LOCAL EVENTS. ONE SUCH WAS UNRWA ANNOUNCEMENT LAST WEEK OF ITS INTENTION TO MOVE FROM LEBANON. RENEWED SECTARIAN FIGHTING OR FAILURE BY PRIME MINISTER HOSS TO FORM A GOVERNMENT DURING MAY COULD STILL CONVINCE THE UNDERWRITING GROUP THAT RENEGING IS PREFERABLE TO ACCEPTING A SITUATION THAT OTHER INSTITUTIONS DEEM UNACCEPTABLE.

5. COLLAPSE OF THE EURODOLLAR LOAN WOULD HAVE REPERCUSSIONS BEYOND THE \$150 MILLION FACE AT. WE TAKE IT FOR GRANTED THAT THE GULF ARABS AND OTHER POTENTIAL INVESTORS, INCLUDING MANY LEBANESE ENTREPRENEURS, REGARD THE LOAN AS EVIDENCE THAT POST-WAR LEBANON IS A
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BANKABLE PROSPECT. EXTERNALLY, GOL IS COUNTING ON "INTERNATIONAL CREDIT LINES" TO FINANCE PART OF THE LL 857 MILLION BUDGET DEFICIT IT HAS PROJECTED FOR 1978. INTERNALLY, COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION COUNTS ON USING PRECEDENT OF EURODOLLAR LOAN IN ITS BID TO GET SIMILAR 7-YEAR FINANCING FOR DEVELOPMENT PROJECTS FROM LEBANESE BANKERS, WHO TO DATE HAVE DECLINED TO LEND GOL FUNDS FOR TERMS EXCEEDING THREE YEARS. ON PLANE OF GOVERNMENT-TO-GOVERNMENT ASSISTANCE, LOAN FAILURE COULD STIMULATE GOL APPROACH TO USG AND OTHER DONORS FOR HIGHER AID LEVELS.
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